

SUBJECT
CC MASTERNOTE FOR THE RECORDECONOMIC AND MONETARY UNION

The Prime Minister had a talk this morning with Sir Michael Butler on Economic and Monetary Union. Ms Sarah Hogg was also present.

The Prime Minister said that the Government were engaged in clarifying the UK negotiating position for the Inter-Governmental Conference on Economic and Monetary Union. His aim was to move the focus away from the issue of sovereignty and concentrate on the economic arguments. In particular, member states must be made to face up to the economic consequences if an attempt was made to move swiftly to a single currency before economic convergence. The other point he wanted to get across was that our proposals for a hard ecu and a European Monetary Fund offered a better route to convergence than any others. The so-called Schengen route, which seemed to be favoured by Karl-Otto Poehl and others, would be disastrous. Poehl probably supported it because it would maximise the chances of having the European Central Bank in Germany.

Sir Michael Butler agreed that a multi-speed economic and monetary union would not be in our interests and would be regarded as very damaging by the City. He took the view that it was urgent to get our negotiators into a position where they could argue that the British proposals offered the best route to a single currency. The Prime Minister said that it was essential, in terms of our own politics, to stand firmly on the position that the normal operation of the market and choice would determine progress towards a single currency.

The Prime Minister continued that he thought the City could help the Government in three ways, although it was very important that these points should not be reported as reflecting his views. First, they could try to influence the Euro-sceptics in the Conservative Party, by using the national interest argument and pointing out the consequences for the City if we remained outside

a single currency. Secondly they should help dispel the impression in Europe that our proposals for the next stage were intended as a delaying tactic. They should arrange for respectable academics and economists to make speeches in Europe, particularly in Germany, about the advantages of our approach. Thirdly, they should help shift the argument away from sovereignty and on to economics at the fastest respectable pace. That could not be done too quickly. Indeed the longer the IGC lasted, the better for us. Ideally it would be pushed to the far side of an election. To sum up, the City could help greatly to de-marginalise the UK in this debate.

C.D.P.

CHARLES POWELL

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